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CONSEQUENCES OF ECONOMIC CRISIS IN INDIA

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 8 October 1957. Concurring were the Director of Intelligence and Research, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Assistant Chief of Staff, Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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CENTRAL INTELLIGENCE AGENCY

8 October 1957

SUBJECT: NIE 51-57: CONSEQUENCES OF ECONOMIC CRISIS IN INDIA*

THE PROBLEM

To estimate the political and economic effects of India's growing economic crisis.

SUMMARY

A. We believe Nehru plans to press ahead as long and as far as he can with India's Second Five Year Plan which emphasizes the buildup of the industrial base needed for further economic development. Nehru and his Congress Party have aroused so much popular interest in and effort behind the plan that it has become the symbol of the effectiveness of democratic government as well as a test of Nehru as a leader.

* For other aspects of the Indian situation, see NIE 51-56, "India Over the Next Five Years", dated 8 May 1956.

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B. India does not have the necessary foreign exchange resources and the plan always assumed that India would receive some foreign exchange loans. However, the demands on India's foreign exchange resources have been greater and earlier than anticipated, and in the absence of substantial additional foreign aid, the Plan will fail.

C. The government has already tacitly cut the original program to what it considers the hard core minimum but there remains a foreign exchange gap to fill during the next three and a half years of at least \$1.4 billion. The requirements for foreign exchange are likely to be particularly heavy during the first eighteen months of this period. By drawing down reserves to a risky level, part of the gap can be filled. India expects to get substantial help from the IBRD and will increase its efforts to attract private foreign capital.

D. Major reliance, however, is being placed on loans from the West, particularly the US. India probably believes that a US example would stimulate aid from the UK, West Germany, Japan, and perhaps others. While further aid from the Bloc would be accepted, India would probably be reluctant to become too dependent on the

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USSR, even in the unlikely event that further massive aid of several hundred million dollars were offered. The substantial foreign exchange cost of India's military establishment is unlikely to be cut so long as tensions with Pakistan continue. We do not believe that Nehru would make significant changes in his general foreign policy either to obtain or as a result of Western aid.

E. If India can manage to fill all or most of the foreign exchange gap, the hard core program can probably be completed. This would not solve all India's problems, but it would bring India closer to the point where its growth would be self-sustaining. If little or no further foreign aid is forthcoming, economic deterioration would be almost certain and the danger of economic stagnation great.

F. It is impossible to estimate with precision how great a reduction in the hard core program could be absorbed without serious repercussions. Certainly there still are parts of the program which could be eliminated with only minor difficulties, and parts could be stretched out beyond 1961. Much of the program, however, consists of interrelated industrial complexes which have already been started and which stand or fall together. A substantial cut in the hard core

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would hence result in significant increases of unemployment and might cause a decline in the already low standard of living, with consequent threats to political as well as economic stability. The risk of these effects would be increased if, as we believe likely, India presses ahead with the whole hard core plan, relying on its own limited foreign exchange resources and the hope of obtaining aid. This course could only be pursued for about a year. If by that time substantial foreign aid had not materialized, there would have to be an abrupt major cutback in the program. Such a cutback would have a more disastrous impact than changes made gradually and while there was enough slack to cushion the shock.

G. The political fortunes of Nehru and the Congress Party are closely tied to the plan. Failure of the plan would hasten the disintegration of the Congress Party and threaten the continuance of democratic government. There is now no other coherent opposition force except the Communists, and they would stand to make important political gains from the collapse of the Congress Party. Success with the plan would probably permit the Congress Party to retain power in the 1962 elections and would provide the kind of environment in which a moderate conservative party could emerge when and if the present Congress Party breaks up. Even if the plan is successful, India's long-term ability to carry on as a united and democratic nation cannot

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be taken for granted, since India would continue to face many serious problems.

H. Other Asian countries will compare the results of India's development efforts with the experience of Communist China. They will construe India's success or failure as showing whether their own economic advance can be achieved through democratic methods. Failure would make such countries far more susceptible to Communist subversion and more likely to adopt authoritarian methods. If India succeeds, its influence in Asia will probably increase. Other countries will probably conclude that a neutralist policy is no bar to Western aid. Those that have aligned themselves with the West will press for increased Western assistance.

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